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TAGS: ECON EFIN EINV ETRD HK CH
SUBJECT: Demand for HK$ Increases, Hang Seng Moves Up Steadily

¶1. Summary: Hong Kong officials arrived in the U.S. to participate in G20 meetings as part of the Chinese delegation as the local economy continued to slow. Layoffs loom as economic difficulties in Macau threaten Hong Kong workers as well. Hong Kong's Legco approved a measure to investigate bank actions related to the sale of Lehman minibonds over the government's opposition. The Hang Seng Index fell 4.9 percent for the week but was up moderately in weak Friday trading. Demand for Hong Kong dollars forced the HKMA to continue to sell foreign exchange and HIBOR remained relatively low, allowing big Hong Kong banks cut their prime lending rates by 25 basis points. End Summary.

Hong Kong Joins G20 Meeting as Economy tips into Recession

¶2. Financial Secretary John Tsang and Hong Kong Monetary Authority Chief Executive Joseph Yam arrived in Washington November 13 to join the Chinese delegation attending the G20 summit. Tsang told the local press that the global financial crisis would prevent Hong Kong from achieving expected 4-5 percent GDP growth in 2008. Late on Friday afternoon, Government Economist Helen Chan announced that Hong Kong's third quarter GDP growth slowed to 1.7 percent from a year ago, compared with growth of 7.3 percent in the first quarter and 4.2 percent in the second quarter. On a seasonally adjusted basis, Hong Kong's Q3 GDP shrank 0.5%. Chan noted that the global financial crisis had significantly impacted Hong Kong's third quarter export trade, consumption and investment. With 4.3 percent growth through the first three quarters, the Hong Kong government now hopes to see 3.0-3.5 percent GDP growth for 2008.

What Happens in Macau Doesn't Stay in Macau

¶3. Las Vegas Sands (LVS) Corporation confirmed November 13 that at least 4,000 Hong Kong construction workers would be among 9,000 workers laid off as the company suspends uncompleted projects in Macau. Apple Daily (Nov. 14) said the return of these 4,000 workers to Hong Kong would push up the unemployment rate by 0.1 percentage point. The same report speculated that a continued slowdown in Macau could threaten the jobs of another 20,000 Hong Kong workers in Macau's hotel and construction industries.

¶4. Hong Kong Chief Secretary Henry Tang blamed LVS' problems on "the global financial tsunami," and promised that the Hong Kong government would look for ways to speed up its infrastructure projects to create more jobs. This week, CE Donald Tsang and CS Henry Tang made separate visits to Dongguan and Shenzhen to hear the concerns of Hong Kong-owned factories in the Pearl River Delta. Shenzhen officials reportedly promised to guarantee some payments and reduce labor restrictions to help Hong Kong companies there.

Legco to Probe Banks on Lehman Bros' Minibonds

¶5. On November 12, Legco passed a resolution authorizing a select committee to investigate bank policies, procedures and actions related to the sale of Lehman Bros'-issued minibonds to retail investors. The government and banks came out strongly against the resolution in the days and weeks leading up to the vote, warning

that exercising the "Powers and Privileges" clause of the Basic Law to subpoena bank executives and records could damage Hong Kong's standing as an international financial center. Despite the government's concerns, Legco passed the resolution by a sizeable majority. The subcommittee will meet November 24 to discuss how the investigation will proceed and is expected to probe whether the HKMA and SFC properly supervised banks, how banks trained sales staff, and the roles of senior government officials and banking executives in the approval of these instruments for sale.

4 Trillion RMB Can't Stem Hang Seng Slide

¶6. Bank of China International Research Vice President Bai Ren told the Hong Kong press that China's RMB 4 trillion market stimulus package announced November 9 would have only a short-term effect on the stock market. After trading moderately higher on November 10, the market lost ground throughout the week. The Hang Seng Index gained 321 points on Friday or 2.4 percent to close at 13542.66. Daily trade was a meager HKD 45 billion. For the week, the Hang Seng Index was down 4.9 percent or 700.77 points.

¶7. The Hong Kong dollar remained strong this week, standing at the higher end of HKD 7.75/USD. HKMA continued to sell Hong Kong dollars in the interbank market to meet the demand. HKMA Chief Executive Joseph Yam said in his weekly column on November 13 that "strong demand for Hong Kong dollars was probably due to repatriation of funds and unwinding of interest carry trades as global financial jitters led market participants to de-leverage and reduce their exposure to risk". Yam predicted that interest rate volatility would continue.

Banks Lower Rates, Any Takers?

¶8. HIBOR quoted by Hang Seng Bank today was 0.3 percent for overnight, 0.4 percent for 1-W, 1.10 percent for 1-M, 2.2 percent for 3-M and 2.5 percent for 6-M. Local banking giants HSBC and Standard Chartered announced they would cut their prime lending rate by 25 basis points to 5 percent; the lowest level since 2004. They were followed by Bank of East Asia and Hang Seng Bank. Analysts predicted the cuts would do little to stimulate mortgage lending in Hong Kong as property prices continue to slide.